Notice of Funding Availability (NOFA)

MULTIFAMILY HOUSING PROGRAM (MHP)
GOVERNOR'S HOMELESS INITIATIVE

June 14, 2011

State of California
Department of Housing and
Community Development

State of California

NOTICE OF FUNDING AVAILABILITY (NOFA)

GOVERNOR'S HOMELESS INITIATIVE
DEVELOPMENT FUNDING FOR SUPPORTIVE HOUSING FOR THE CHRONIC HOMELESS WITH SEVERE MENTAL ILLNESS

June 14, 2011

Table of Contents

A. Introduction

On August 31, 2005, Governor Schwarzenegger announced an initiative to address long-term homelessness in California. As part of this initiative, he directed the Department of Housing and Community Development (Department), the California Housing Finance Agency (CalHFA) and the Department of Mental Health (DMH) to provide an integrated package of funding for the development of permanent supportive housing for persons with severe mental illness who are chronically homeless. These housing development funds are intended to be complemented by Mental Health Services Act Housing Program (MHSA) funds from counties, as described in Section R. This NOFA announces the funds available under the Governor's Homeless Initiative, as follows:

1. Approximately $3 million in permanent development financing under HCD's Multifamily Housing Program (MHP) for units set aside for persons with severe mental illness who are chronically homeless. These funds were appropriated by the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46).

2. Additional MHP funds for other units, in projects serving mixed populations that do not use nine percent tax credits.

B. Application Packaging and Submittal

The Application form will be available on the Department's website on or about June 14, 2011. Applications for this funding round will be considered on an "over-the-counter" basis until available funds are exhausted. Applications will be accepted from 8:00 A.M on August 3, 2011 until 5:00 P.M. May 4, 2012 or until such time before May 4, 2012 that the State has received what it determines to be a sufficient number of applications to reasonably use all funds currently available.

Applications will be reviewed in the order in which they are received by a team including representatives of the Department, CalHFA and DMH. Applications recommended for approval by staff will be considered by the State's normal review bodies and are subject to approval by the Directors of the three State agencies. The Department's date stamp on the last item required to complete the review will be used to determine the order in which applications are presented to the review bodies.

Notice will be given on Department's website when a sufficient number of applications have been received to exhaust the funds offered under this NOFA for Target Population Units. Applications will not be accepted after such notice. Any applications received prior to the notice that are deemed eligible for funding will be prioritized based on the Department's date and time stamp for the completed application.

Applications must be submitted on forms provided or approved by the Department.

Application forms must not be modified. A complete original application, plus two copies, must be received by the Department. It is the applicant's responsibility to ensure that its application is clear, complete and accurate.

Applications must be delivered to one of the following addresses:

U.S. Mail	Private Carrier
Multifamily Housing Program Department of Housing and Community Development Division of Community Affairs P.O. Box 952054 Sacramento, CA 94252-2054	Multifamily Housing Program Department of Housing and Community Development Division of Community Affairs 1800 Third Street, Room 460 Sacramento, CA 95811

C. Program Changes

Projects that have received an award from the Department's Housing Policy Development Division via the Catalyst Projects for California Sustainable Strategies Pilot Program will receive five bonus points in the application scoring process. More information is available on the Department's website at: http://www.hcd.ca.gov/hpd/cpcsspp.html

D. Application Workshops

There will be time for answering individual applicant questions. If you are unable to attend the workshop and have questions about the application process, please contact MHP staff.

Date	Workshop Location	Time
June 20, 2011	Department of Housing & Community Development 1800 Third Street, Room 470 **Sacramento, CA 95811**	10 a.m. to 2 p.m.
June 22, 2011	Tassafaronga Village 930 84th Avenue, Community Room **Oakland, CA 94621**	10 a.m. to 2 p.m.
June 23, 2011	Mariposa Place Apartments 1050 N. Mariposa Avenue, Community Room **Los Angeles, CA 90029**	10 a.m. to 2 p.m.

ADVANCE REGISTRATION FOR THE WORKSHOPS IS REQUESTED. Please complete the attached registration form and return via email to *tmadrid@hcd.ca.gov* or fax to (916) 445-0117, attention Tanya Madrid at least 24 hours before the workshop. ***Printed materials will not be provided at the workshop. Materials will be made available for download and printing from the Department's website or via e-mail by request.***

E. Legal Authority

The MHP funds set aside for persons with severe mental illness who are chronically homeless were originally made available for preservation projects pursuant to Health and Safety Code Section 53533(a)(1)(A). In accordance with Health and Safety Code Sections 53533(a)(1)(E) and 50603(f), these funds are now reverting to MHP.

MHP was established by SB 1121, Statutes of 1999 (Alarcón), which created Chapter 6.7, commencing with Section 50675, of the Health and Safety Code. In addition to the requirements of this NOFA, applications shall be subject to two sets of regulations, the MHP-specific Regulations (including Article 6. Supportive Housing Loans) and the Uniform Multifamily Regulations (UMR), both of which are available on the HCD's website at http://www.hcd.ca.gov/ca/mhp. Applications submitted under this NOFA are also subject to the applicable statutory requirements (including those of Proposition 46 and SB 1227 of 2002). All section references in this NOFA refer to the MHP regulation text unless otherwise noted. UMR section references refer to the Uniform Multifamily Regulations.

F. Relationship to Other Program Funding

Three other components of MHP are also available to housing developments targeting this population.

MHP's "General" component, under which an $80 million NOFA was issued June 14, 2011, assists a wide variety of housing types. It is offered through a competitive process, and one way to enhance a project's competitiveness is to reserve a certain number of units for special needs populations, such as homeless youth. Since MHP-General provides assistance for all of the income-restricted units in the project, and not just those reserved for special needs tenants, it may be a good choice for projects not using 9 percent tax credits that mix a relatively small number of units for youth with the general low income population.

MHP's Supportive Housing component, under which a $65 million NOFA was issued June 14, 2011, offers funding for units targeting certain disability groups.

MHP's Homeless Youth component, under which a $12 million NOFA was issued June 14, 2011, exclusively assists housing for homeless youth. Information on the General, Supportive Housing and Homeless Youth components of MHP is available at http://www.hcd.ca.gov/fa.

G. Eligible Project Sponsors

Sponsors and borrowing entities may be organized on a for-profit or not-for-profit basis. Any individual, public agency or private entity capable of entering into a contract is eligible to apply, provided that they or their principals have successfully developed at least one affordable housing project. Sponsors of projects where at least 70 percent of the units consist of Target Population Units or Special Needs Population units are exempt from the requirement for previous development experience under limited conditions. See Section 7303 (d).

Sponsors must also demonstrate a minimum of 24 months experience in the ownership or operation of at least one Supportive Housing or Special Needs Population project with five or more units, and provide the commitment of County Mental Health Department funds described in Section R. See Section 7343.

Sponsors must have site control in the name of the Sponsor or an entity controlled by the sponsor as defined in Uniform Multifamily Regulations (UMR) Section 8303.

H. Eligible Uses of Funds

MHP funds will be provided as permanent financing only, and may be used to take out construction loans used to cover normal project development (capital) costs, as detailed in Section 7304. MHP funds may be used to capitalize a project operating reserve account up to the limit required under UMR Section 8308. MHP funds may not be used for the cost of supportive services, although the cost of on-site supportive services coordination may be treated as a project operating cost, payable from operating income. MHP funds must be attributable to the costs of “restricted” units (MHP units and units subject to a long-term regulatory agreement with occupancy and rent restrictions similar to those of MHP) or to the costs of facilities used for childcare, after-school care, and social service provision integrally linked to the restricted units.

I. Eligible Projects

Projects must qualify as a rental housing development, as defined in UMR Section 8301, and meet the requirements of Sections 7302 and 7342. Projects funded under this NOFA must contain at least five units and Supportive Housing units, as defined in Section O, consisting of 35 percent of the total project units. Tenant household income of Supportive Housing units at initial occupancy shall not exceed 30 percent of the greater of Area Median Income (AMI) or State Median Income (SMI).
.
Projects must meet the underwriting standards described in UMR Section 8310 and are ineligible if construction has commenced prior to submission of a complete application, or if the project is already fully funded.

Under this NOFA, projects using nine percent tax credits will be eligible, as well as those using four percent credits. As described in Section K, lower loan limits apply to nine percent projects than four percent projects.

J. Projects with Extraordinarily High Development Costs

The Department is concerned about the extremely high cost of a small but significant number of projects funded in the recent past, and the extraordinary level of public subsidy required by these projects. Of particular concern are projects with total development costs in excess of $350,000 per unit. The Department will require thorough justification for costs above that level. In this period of declining real estate values and development costs, it is important to encourage MHP funding of otherwise qualified projects that are able to minimize costs, without sacrificing design elements that are cost effective in the long run or meet vital needs of project residents.

In light of this concern, and consistent with UMR Section 8311, the Department reserves the right to reject an application if total development cost exceeds an amount that cannot be reasonably justified, in comparison to the costs for other similar developments of modest design in the general area. Projects may be required to justify the total development cost if the cost substantially exceeds the Department's historical project costs for similar projects.

In evaluating projects with high per unit costs, the Department will closely scrutinize the justification that costly design features were necessary to obtain local approvals or neighborhood acceptance. Similarly, the Department will be giving close scrutiny to projects with extraordinary site development costs (where they are not fully compensated for by a sharply discounted purchase price), or where the constraints of the site necessitate an especially expensive design. Although the Department appreciates that individual developers may experience great difficulty locating more appropriate sites, it has concluded that the interests of the Program are best served by avoiding excessive site and design-related costs.

Prior to closing construction financing, the Sponsor shall be required to submit an appraisal acceptable to the Department, from a qualified appraiser, which supports the acquisition cost identified in the Development Budget.

K. Maximum Loan Amounts

The maximum MHP loan amount is a function of the number of restricted units in a project, their size, location, affordability level, whether the project is receiving nine percent tax credits, and the number and type of units restricted to the Target Population. For projects not receiving nine percent tax credits, the per unit limits are the same as for other MHP NOFAs, except that the base amount for Target Population units is $60,000 instead of $30,000. For projects receiving nine percent credits, the per-unit limits are as the same for other MHP NOFAs (with a $30,000 base amount), but the total maximum loan amount will be calculated by applying these limits to Target Population Units only. Tables specific to this NOFA showing the per-unit loan limits and targeted income limits and rents are available on the Department's website.

L. Loan Terms and Security

MHP Loans will have a 55-year term, and bear simple interest at the rate of three percent per year. For the first 30 years, annual payments will be required in the amount of 0.42 percent of the outstanding principal loan balance. The annual payment amount for the next 25 years will be set by the HCD in year 30, and will be the minimum amount necessary to cover the HCD's monitoring costs. Unpaid principal and accrued and deferred interest will be due at the end of the loan term.

Cash flow remaining after payment of all debt service, approved operating expenses, required reserves and allowable deferred Developer Fee and Distributions per UMR Section 8314 shall be applied toward repayment of the MHP loan. If the terms of other public agencies' financing also require payments from remaining cash flow, the Department may agree to share the remaining cash flow with the public agencies in proportion to the respective loan amounts.

MHP loan documents will include a promissory note, deed of trust and regulatory agreement. The deed of trust and regulatory agreement may be subordinated to bond debt, and amortizing loans from institutional lenders and the federal government provided no balloon payments are due prior to the end of the MHP loan term. MHP loans may not be subordinated to local public agency loans or restrictions attached to these loans, unless the amount of the local loan is at least twice the amount of the MHP loan. See Section 7306(e) and UMR Section 8315. If a regulatory agreement is in favor of a community redevelopment agency, then it may remain senior to the Department's regulatory agreement in some cases.

The MHP loan must be secured by the fee or a leasehold interest in the property acceptable to the Department. The term of a leasehold interest must be at least 90 years (65 years where the lessor is a public entity) from the date the MHP loan closes, excluding any unexercised lease extensions. If the MHP loan is secured by leasehold, the owner of the fee and the borrower must sign a recordable lease rider approved by the Department. See UMR Section 8316 for other leasehold requirements.

M. Rent and Occupancy Limits

MHP assisted unit rent and tenant incomes will be restricted in accordance with the rent and income limits proposed by the project Sponsor in their MHP application, with rents not exceeding 30 percent of the applicable income limit. The maximum possible income and rent limits are those set by the Tax Credit Allocation Committee (TCAC), using its calculation methods: 60 percent of AMI, adjusted by household size, and 30 percent of 60 percent of AMI, adjusted by bedroom size. These maximum limits are available on the TCAC website at http://www.treasurer.ca.gov/ctcac/rentincome/10/rent/post20100514.pdf.

Assisted unit rent increases will be limited in accordance with the rules governing tax credit units. Where the project receives rental assistance subsidies, "rent" is defined as the tenant's contribution, rather than the contract rent level. Sponsors of this type of project will be required to continue the rental assistance as long as it is available. Projects with rental subsidies must also be feasible with 50 percent of AMI rents for units garnering income-targeting points in the event the rental assistance is terminated, in accordance with Sections 7301(n) and 7312(d).

N. Developer Fee and Distribution Limitations

Developer Fee means the same as the definition of that term in the CCR, Title 4, Section 10302 and includes Financial Consulting Costs. The Developer Fees are further limited in accordance with UMR Sections 8312 and 8314, and Distributions to the Sponsor out of operating income are also limited in accordance with UMR Sections 8312 and 8314.

The value of land donations received from city and/or county jurisdictions, master developers or other entities which are not the Sponsor or an affiliate of the Sponsor will not be counted as a capital contribution to increase Developer Fee limits as described in UMR Section 8312(d).

Furthermore, cash contributions or grants received by the Sponsor or an affiliate of the Sponsor from master developers or other entities that are not controlled by the project Sponsor or Co-Sponsor, or where such cash contributions are contingent upon the development of the affordable housing project, may not be counted as a capital contribution to increase Developer Fee limits.

Developer Fees are all funds paid at any time as compensation for developing the proposed projects to include all development consulting fees, processing agent fees, developer overhead and profit, construction management oversight fees if provided by the developer, personal guarantee fees, syndicator consulting fees, and reserves in excess of those customarily required by multifamily housing lenders. The Department has interpreted this definition to include any lease-up fees, incentive fees, or other property management fees, in excess of those customarily charged by property management firms for lease-up activities, which are paid to the Sponsor or Co-Sponsor, or a management company affiliated with the Sponsor or Co-Sponsor.

O. Target Population

For this NOFA, “Target Population” means households:

1. whose income does not exceed 30 percent of Area Median Income (or 30 percent of State Median Income, if this is a greater amount); and

2. that include an adult or older adult member eligible for services under the MHSA who is Chronically Homeless.

Welfare and Institutions Code Section 5813.5 specifies who is eligible for services under the MHSA, by reference to Welfare and Institutions Code Section 5600.3(b) and (c).

“Chronically Homeless” means individuals (including accompanied individuals) who have been continuously “Homeless” for a year or more during the past three years or have experienced four or more episodes of sustained homelessness during the past three years. "Homeless" means the same as that term is defined in Section 7341(b), except that it does not include individuals moving directly from transitional housing who have occupied such housing for more than a year. With advance Department approval, project Sponsors may elect to abide by more restrictive definitions of these terms, such as those used by HUD.

The MHP set-aside funds described in A.1 above may only be used to cover development costs for permanent housing linked to services where occupancy is restricted to the Target Population ("Target Population Units"). These units are a subset of the units defined as Supportive Housing Units under the MHP regulations.

P. Supportive Service and Property Management Requirements

Projects shall provide access to an array of services and amenities for tenants whose ability to live independently would be improved by the availability of such services and amenities. They shall be linked to on-site or off-site services that assist the tenant to: retain the housing, improve his or her health, and maximize his or her ability to live and, where possible, work in the community.

As part of the application, Sponsors must submit a Supportive Services Plan documenting that the project will ensure the availability of services that meet the needs of the population served, along with a line-item budget for the supportive services, itemizing all expenses and indicating the sources, amounts, and status (i.e., proposed or committed) of supportive service funds. This plan is subject to review and approval by the Department. Projects with inadequate plans will not receive funding awards.

The primary service provider for the project must demonstrate a minimum of 24 months experience in the provision of services to the targeted population, and a successful history of securing funds for similar activities.

The property manager must have a minimum of 24 months experience in managing a Supportive Housing or Special Needs Population housing project that would qualify as a rental housing development pursuant to UMR Section 8301(o). For proposed projects with fewer than 10 units, the Department may approve a property management agent with experience managing projects that do not qualify as rental housing projects, provided the agent has at least 24 months experience managing housing for the specific population targeted by the proposed project.

Applications must include a description of the service needs of each target population that will be served, the expected sources of referrals, and the Sponsor's tenant selection criteria and tenant selection process. They must also document that that the tenant selection criteria and process are consistent with county service funding priorities.

Q. Reporting Requirements

1. The Sponsor shall submit along with the application for funding:

a. A plan for State approval listing projected outcomes and outcome measures for residential stability, increased skills or income, and greater self determination and detailing how data will be collected, analyzed and evaluated. The sponsor must reasonably describe the proposed system for tracking the data and agree to collect and evaluate data on outcomes at least monthly, with a baseline established at move-in.

b. A plan for State approval describing how the Sponsor will track and evaluate pre- and post occupancy service utilization data for tenants who were, or become during occupancy, incarcerated, hospitalized, or housed in a residential treatment facility or homeless facility.

2. At the time the Sponsor submits the annual project audit required by Section 7325, the Sponsor shall also submit a supplemental report including the following information:

a. The length of occupancy by each supportive housing tenant.

b. Changes in each supportive housing tenant's employment status during the previous year.

c. Changes in each supportive housing tenant's source and amount of income during the previous year.

d. Data on the measurable outcomes that the Sponsor agreed to collect pursuant to the State approved plan mentioned in Section Q.1.a directly above and an evaluation of the project based on this data.

e. Data on the plan for tracking service utilization data that the Sponsor agreed to collect pursuant to the State approved plan mentioned in Section Q.1.b directly above and an evaluation of the project based on this data.

R. <u>County Mental Health Department Role</u>

Typically, projects serving the Target Population will require three types of subsidies: (1) development (capital) subsidies; (2) operating or rental subsides to cover the difference each year between the cost of operating the housing and tenant-paid rents; and (3) subsidies for mental health and other supportive services. This NOFA offers development subsidies, plus a sharply limited amount of funds for rental subsidies. In some areas, federal funds are available for more substantial rental subsidies and some supportive services.

To be eligible under this NOFA, projects shall have commitments from the local County Mental Health Department for ongoing Mental Health Services Act funding. At a minimum, Counties must commit funding for services, and, where federal funding is inadequate for this purpose, funding for rent or operating subsides as well. Since the State is making a major capital investment in housing intended to serve the Target Population for many years, County funding commitments shall be formalized through Memorandums of Understanding, or similar agreements, and shall be for the longest legally permissible term.

County commitments must also be consistent with the Community Services and Supports plan submitted to (and ultimately approved by) the Department.

S. Funding Compatibility

Sponsors typically anticipate using an array of funding sources to fund the construction and permanent financing of their projects. The Sponsor should

determine, prior to applying for the MHP funds, that the requirements of the non-MHP funding sources are compatible with the requirements of the MHP. For example, compatibility issues have arisen with local and federal funding sources related to:

- The required terms of the MHP security when the security for the MHP loan is in a leasehold interest (UMR Section 8316);
- The MHP prohibition of senior debt that has a provision for a "balloon" payment. Often bond financing provisions include interest rate resets with potential calls prior to the full amortization term of the loan. Any interest rate resets or similar provisions governing senior debt shall contain a specified interest rate cap, subject to the approval of the Department and shall not jeopardize the feasibility of the project. Details of this issue and the Department's policy may be found on the Department's website at: http://www.hcd.ca.gov/fa/mhp/MHP-LoanClosing/ManagementMemo07-01.doc
- Under MHP, senior debt with a variable interest rate is underwritten at the ceiling interest rate;
- The mandatory payment to HCD of the .42 percent debt service;
- The MHP requirement to target some of the project rents to extremely low income households that are below the federal income eligibility standard;
- The State statutory requirement that projects financed with MHP pay no less than the State prevailing wage rate.
- Terms of other public agencies' financing requiring hard debt service.

T. Prevailing Wage Requirements

Pursuant to Health and Safety Code section 50675.4(c)(2), projects receiving assistance under this NOFA are subject to State prevailing wage law, as set forth in Labor Code section 1720 et seq.

U. Important Legal Matters

The Department reserves the right, at its sole discretion, to suspend or amend the provisions of this NOFA. If such an action occurs, the Department will notify all interested parties. This NOFA provides a partial summary of the MHP statute and regulations. In the interest of brevity, it does not cover many aspects of those governing documents, some of which may be of critical importance to

individual projects. For this reason, applicants are urged to carefully review the regulations before submitting applications.

Article XXXIV of the California Constitution requires advance voter approval of certain publicly funded and regulated low-income housing projects. Projects submitted for funding must either have Article XXXIV approval or be exempt from the need for this approval.

Sponsors must also be very careful to avoid violation of laws barring housing discrimination. The State will review proposed tenant selection criteria for potential violations of these laws. It may condition funding on the elimination of restrictions that it believes to be impermissible, or reject an application where it determines that compliance with applicable law is not feasible.

V. Optional Pre-application / Technical Assistance

A pre-application is not required. The optional pre-application will provide a means for the Department to provide project-specific technical assistance prior to the submittal of a complete application. The Department will review and evaluate the pre-applications for sponsor and project eligibility, site control, development experience, supportive services plan, financial data, and establish a preliminary point score for the project. A full and complete application must be submitted before full evaluation and scheduling the project for presentation to the Committee as outlined in the Section B above.

Any application section or combination of sections may be submitted as a pre-application and utilized for technical assistance purposes.

W. Application Point Scoring

The criteria that will be used to score projects that meet the eligibility criteria and supportive service requirements described in Sections G and I are described in Sections 7320 and 7346, and summarized below. The application for funding provides much more detail on the scoring system.

Projects must receive a minimum point score of 125, as determined by Department staff, in order to be considered for a funding award. Additionally, projects must score at least four points in the Development and Ownership Experience of the Project Sponsor category and at least five points in the Project Readiness category.

Criterion	Max. Points	Comments
Extent Project serves the lowest income levels.	35	The income levels referenced in the regulations are posted on the Department's website.
Extent the Project addresses the most serious local housing needs.	15	Local housing need is established on the basis of verification by the locality and, for some mixed projects, by documenting the market vacancy rate.
Development and ownership experience of the Sponsor	20	Minimum point score of four points is required. Experience for the prior 10 years is considered.
Percentage of units for families or Supportive Housing units and "At-risk" Rental Housing Developments.	35	Because projects eligible to apply under this NOFA must have at least 35% supportive housing units, they will automatically receive full points in this scoring category.
Leverage of other funds.	20	Points are awarded on the basis other permanent development funding as a percentage of the MHP funds.
Project readiness	15	Minimum point score of five points is required. The total score is the sum of point awards in six sub-categories measuring readiness.
Adaptive Reuse/Infill/Proximity to Amenities	10	Points awarded to adaptive reuse and infill projects, or those near specified amenities.
Catalyst Program Award	5	Projects receiving an award from the Catalyst Program will receive five bonus points.
Total	150	Although mathematically possible to score 155 points, the maximum reportable score will be 150 points.

X. Disclosure of Application

Information provided in this application will become a public record available for review by the public pursuant to the Public Records Act. As such, any materials provided will be disclosable to any person making a public records request. As such, we caution you to use discretion in providing us with information that is not specifically requested, including but not limited to, bank account numbers, personal phone numbers and home addresses. By providing this information to the Department, the Sponsor is waiving any claim of confidentiality and consents to the disclosure of all submitted material upon request.

Questions related to MHP funding and this NOFA in general should be directed to the MHP program staff at (916) 323 - 3178.

Sincerely,

Chris Westlake
Deputy Director
Department of Housing and Community Development

Attachment 1

Governor's Homeless Initiative Program Workshop Registration Form

The Governor's Homeless Initiative (GHI) Program workshop is designed to provide training on the GHI application and technical assistance for applicants. It is strongly recommended that you attend. Please RSVP by completing and submitting this single page (no cover sheet is needed) to: *tmadrid@hcd.ca.gov* or FAX (916) 445-0117 at least 24 hours before the workshop date.

Name of Attendee(s):	
Organization's Name:	
Address:	
City, Zip Code:	
E-mail:	
Phone Number:	
Fax:	

Please place an X next to the workshop you wish to attend:

______ **Sacramento, Monday, June 20**

______ **Oakland, Wednesday, June 22**

______ **Los Angeles, Thursday, June 23**